DISCLAIMER

The IBTR offers this discussion for informational purposes only and may revise its contents at any time without notice. The discussion is not intended, nor should it be construed, as a ruling on any specific appeal, and parties shall not cite it in any proceeding. Parties may consult the Indiana Code, Indiana Tax Court decisions, and IBTR decisions for more information about how to present a case to the IBTR.

EVIDENCE IN PROPERTY TAX APPEALS

The Department of Local Government Finance's administrative rules define the "true tax value" of real property as "the market value-in-use of a property for its current use, as reflected by the utility received by the owner or a similar user, from the property."[1] The appraisal profession traditionally has used three methods to determine a property's market value: the cost, sales-comparison, and income approaches.[2] *Id*. at 3, 13-15. In Indiana, assessing officials generally value real property using a mass-appraisal version of the cost approach contained in the Real Property Assessment Guidelines for 2002 – Version A.

An assessment determined using the Guidelines' cost approach is presumptively accurate.[3] A taxpayer may rebut that presumption and establish a different value by offering evidence that is consistent with the Manual's definition of true tax value.[4] A professional appraisal prepared in accordance with that definition often will suffice.[5] Actual construction costs, sales information for the subject or comparable properties, and any other information compiled using generally accepted appraisal principles may also be offered to rebut the assessment's presumption of correctness.[6]

Whatever type of evidence the parties offer, they must explain its significance. The IBTR will not assign any probative weight to conclusory statements. **And parties must always explain how their evidence relates to the appealed property's market value-in-use as of the relevant valuation date**. For assessment years 2002-2005, the valuation date is January 1, 1999. For assessment years from 2006 forward, that date changes. Click here for more information about valuation dates.

With that in mind, the following discussion briefly summarizes the most common generally accepted methods for valuing real property.

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[1] 2002 REAL PROPERTY ASSESSMENT MANUAL 2 (incorporated by reference at 50 Ind. Admin. Code 2.3-1-2).
[2] *Id*. at 3, 13-15.
[3] *Eckerling v. Wayne Twp. Assessor*, 841 N.E.2d 674, 676 (Ind. Tax Ct. 2006); *see also* MANUAL, at 6
[4] *Id.*
[5] *See Id.*; *see also Kooshtard Prop. VI, LLC v. White River Twp. Assessor,* 836 N.E.2d 501, 506 n.6 (Ind. Tax Ct. 2005).
[6] MANUAL at 5.

Cost Approach

The cost approach assumes that buyers will pay no more for a property than it would cost to buy an equally desirable substitute parcel of land and build an equally desirable substitute improvement. An improvement's value is determined by first estimating the cost to construct a new improvement and then subtracting accrued depreciation. The land's value as if vacant is then added to determine the property's overall value.[7] To learn more about the cost approach, click here. You may also wish to consult manuals and expert treatises, such as INTERNATIONAL ASSOCIATION OF ASSESSING OFFICERS, PROPERTY APPRAISAL AND ASSESSMENT ADMINISTRATION (1990) or APPRAISAL INSTITUTE, THE APPRAISAL OF REAL ESTATE (12th ed. 2001).

Actual construction costs

The Manual expressly recognizes that parties may use actual—rather than estimated—construction costs to prove a property's market value-in-use. When using actual costs, parties must identify all direct and indirect costs required to construct improvements. Direct costs include, but are not limited to, labor, materials, supervision, utilities used during construction, and equipment rental. Indirect cost include, but are not limited to, building permits, fees, insurance, taxes, construction interest, overhead, profit and professional fees. Construction costs must represent all costs (direct and indirect) regardless of whether they were realized, as in the case of do-it-yourself construction.[8]

Sales-Comparison Approach

The sales-comparison approach assumes that potential buyers will pay no more for a property than it would cost to buy an equally desirable substitute property in the marketplace. In applying this approach, one must identify comparable improved properties that have sold and adjust their sale prices to reflect the subject property's total value. The adjustments reflect differences between the subject and comparable properties that affect value. Those adjustments are quantified using objectively verifiable market evidence.[9] To learn more about the sales-comparison approach, click here. You may also wish to consult manuals and expert treatises, such as INTERNATIONAL ASSOCIATION OF ASSESSING OFFICERS, PROPERTY APPRAISAL AND ASSESSMENT ADMINISTRATION (1990) or APPRAISAL INSTITUTE, THE APPRAISAL OF REAL ESTATE (12th ed. 2001).

Income Approach

This approach assumes that buyers will pay no more for a property than it would cost to buy an equally desirable substitute investment offering the same risk and return. The property's value flows from the rent it will produce for its owner.[10] Thus, the income approach requires capitalizing the property's income. They may apply either direct- or

[7] MANUAL at 13.
[8] REAL PROPERTY ASSESSMENT GUIDELINES FOR 2002 –VERSION A, intro at 1.
[9] MANUAL at 13-14.
[10] MANUAL at 14.

yield-capitalization methods. Examples of direct capitalization include applying an overall-capitalization rate to one year of a property's net operating income, or using a gross-rent multiplier. Yield-capitalization models tend to involve more variables than direct-capitalization models, and they more explicitly attempt to simulate investors' decision-making processes. To learn more about the income approach, click here. You may also wish to consult manuals and expert treatises, such as INTERNATIONAL ASSOCIATION OF ASSESSING OFFICERS, PROPERTY APPRAISAL AND ASSESSMENT ADMINISTRATION (1990) or APPRAISAL INSTITUTE, THE APPRAISAL OF REAL ESTATE (12th ed. 2001).

Sale of the Subject Property

Parties may also offer the subject property's actual sale price to show its market value. The sale must have been an arms-length transaction and must otherwise reflect the property's market value. Factors relevant to determining whether a property's sale price reflects its market value include:

> Whether the buyer and seller were typically motivated;
> Whether both parties were well informed and acted in what they considered to be their best interests;
> Whether a reasonable time was allowed for exposing the property to the open market;
> Whether the buyer made payment in cash or financial terms comparable thereto; and
> Whether the price was affected by special financing or concessions.[11]

[11] *See* MANUAL at 10.